

Message Text

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64

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 /123 W
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R 301537Z OCT 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7798

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LIMA

AMEMBASSY SANTIAGO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS

C O N F I D E N T I A L QUITO 7962

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: GOE CABINET POSTPONES DECISION ON OIL PRICE RISE

REF: QUITO 7506

1. AT THE REGULAR MEETING OF THE CABINET ON OCTOBER 28,

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MINISTER OF NATURAL RESOURCES JAIME DUENAS PRESENTED A REPORT

SUMMARIZING A STUDY PREPARED BY AN INTER-AGENCY TECHNICAL COMMITTEE ON THE INCREASE TO BE EFFECTED IN THE PRICE OF ECUADOREAN OIL EXPORTS (FOLLOWING UP OPEC'S RECENT DECISION). THE CABINET DECIDED TO POSTPONE A DECISION ON THE REPORT'S RECOMMENDATIONS, AND TO SET UP A NEW COMMISSION COMPOSED OF SEVERAL CABINET MEMBERS WHO ARE TO REVIEW AND VERIFY THE DATA IN THE REPORT AND ARE TO PRESENT THEIR OWN FINDINGS AND RECOMMENDATIONS AT ANOTHER CABINET MEETING IN THE NEAR FUTURE, POSSIBLE A SPECIAL SESSION WHICH MAY BE HELD AS EARLY AS THIS FRIDAY, OCTOBER 31.

2. ACCORDING TO EMBASSY CONTACTS, AND TO PUBLISHED PRESS ACCOUNTS OCTOBER 29 QUOTING "UNOFFICIAL SOURCES", THE REPORT PRESENTED TO THE CABINET RECOMMENDED AN INCREASE OF APPROXIMATELY 33 CENTS (U.S.) IN THE CURRENT TAX-PAID COST OF US\$10.41 PER BARREL. EMBASSY CONTACTS IN THE TEXACO-GULF CONSORTIUM HAVE TOLD US THAT THEY HAVE OBTAINED COPIES OF THE REPORT; THAT IT DOES INDEED RECOMMEND A 33 CENTS PER BARREL INCREASE AND A SIMPLIFICATION OF THE GOE OIL TAX STRUCTURE; AND THAT, WHILE THEY HAVE NOT YET HAD TIME TO ANALYZE IN DEPTH THE REPORT'S RECOMMENDATIONS, THEIR INITIAL IMPRESSION IS THAT THE RECOMMENDATIONS WOULD FALL SHORT OF PROVIDING ADEQUATE INCENTIVE TO THE COMPANIES TO RESUME INVESTING IN ECUADOR.

3. EMBASSY COMMENT: WE BELIEVE THAT THE POSTPONEMENT OF A CABINET DECISION ON THE REPORT'S RECOMMENDATIONS REFLECTS A DESIRE ON THE PART OF MINISTER DUENAS TO OBTAIN BROAD, CABINET-LEVEL SUPPORT FOR THE RECOMMENDATIONS PREPARED BY TECHNICAL EXPERTS, SO AS TO IMPRESS THE ECUADOREAN PUBLIC WITH THE CAREFULNESS THE GOE WILL HAVE PUT INTO THE EVENTUAL FINAL DECISION, AND WITH THE HIGH AND WIDE LEVEL OF SUPPORT WITHIN THE GOE FOR THAT DECISION. THERE IS ALSO, WE BELIEVE, A POSSIBILITY THAT MINISTER DUENAS ENGINEERED THE POSTPONEMENT IN ORDER TO HAVE THE REPORT'S RECOMMENDATIONS MODIFIED IN FAVOR OF THE COMPANIES, IN RESPONSE TO THEIR LESS-THAN-ENTHUSIASTIC VIEW OF THE RECOMMENDATIONS; ALTHOUGH THIS INTERPRETATION OF THE POSTPONEMENT MAY BE OVERLY OPTIMISTIC, WE DO BELIEVE THAT DUENAS WANTS TO ACCOMMODATE THE COMPANIES ENOUGH
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TO INDUCE THEM TO STEP UP THEIR INVESTMENTS IN ECUADOR-- AND WE NOTE THAT IF THE GOE TECHNICAL EXPERTS' RECOMMENDATIONS FALL SHORT OF DOING THAT, A CABINET-LEVEL COMMISSION WOULD BE THE MOST EFFECTIVE INSTRUMENT FOR BRINGING ABOUT THE DESIRED CHANGES IN THOSE RECOMMENDATIONS. END COMMENT.
BREWSTER

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